

No. 8/13/DPM

Jakarta, May 1, 2006

CIRCULAR LETTER

To

BANKS, RUPIAH AND FOREIGN EXCHANGE MONEY MARKET

BROKERAGE COMPANIES AND

SECURITIES BROKERS/DEALERS

Subject : Issuance of Bank Indonesia Certificate Through Auction

In the framework of improvement in issuance of Bank Indonesia Certificate through auction as stipulated in Bank Indonesia Regulation Number 4/9/PBI/2002 concerning Open Market Operation dated 18 November 2002 (State Gazette of the Republic of Indonesia Year 2002 Number 126, Supplement to State Gazette Number 4243), as amended by Bank Indonesia Regulation Number 7/30/PBI/2005 dated September 13, 2005 (State Gazette of the Republic of Indonesia Year 2005 Number 84, Supplement to State Gazette Number 4533), Bank Indonesia Regulation Number 4/10/PBI/2002 concerning Bank Indonesia Certificates dated November 18, 2002 (State Gazette of the Republic of Indonesia Year 2002 Number 127, Supplement to State Gazette Number 4244), as amended by Bank Indonesia Regulation Number 6/5/PBI/2004 dated February 16, 2004 (State Gazette of the Republic of Indonesia Year 2004 Number 18, Supplement to State Gazette Number 4366) and Bank Indonesia Regulation Number 6/2/PBI/2004 dated February 16, 2004 concerning Bank Indonesia - Scripless Securities Settlement System (State Gazette of the Republic of Indonesia Year 2004 Number 15, Supplement to State Gazette Number 4363), it is deemed necessary to prescribe regulations on the

issuance ...

issuance and trading of Bank Indonesia Certificate through auction in a Bank Indonesia Circular Letter, as follows:

I. GENERAL PROVISIONS

The terminologies used in this Circular Letter have the following meanings:

1. Bank is a commercial bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, conducting conventional business operations.
2. Open Market Operations, hereinafter referred to as OMOs, are money market transaction activities conducted by Bank Indonesia with Banks and other parties in the framework of monetary control.
3. Bank Indonesia Certificates, hereinafter referred to as SBIs, are securities denominated in Rupiah currency issued by Bank Indonesia as a short term debt instruments.
4. SBI Auction is the sale of SBI by Bank Indonesia in the framework of implementing monetary policies.
5. BI-RATE is policy interest having 1 (one) month tenor fixed periodically and announced to public by Bank Indonesia as the sign of monetary policy for a certain period of time.
6. Stop-out Rate, hereinafter referred to as SOR, is the highest discount rate in the auction in the context of achieving the quantity target of SBI to be issued by Bank Indonesia.
7. Demand Deposit account is a Bank's Rupiah fund account at Bank Indonesia.
8. Bank Indonesia - Gross Settlement system, hereinafter referred to as the BI-RTGS System, is a system for electronic fund transfer among BI-RTGS System members in the Rupiah currency with settlement conducted in real time on an individual transaction per transaction basis.

9. Bank ...

9. Bank Indonesia - Scripless Securities Settlement System, hereinafter referred to as the BI-SSSS, is a facility for doing transaction with Bank Indonesia including its administration and electronic administration of Securities which is directly connected among Participants, Organizer and the BI-RTGS System.
10. Central Registry is Bank Indonesia in performing the function as the Administrator of Securities for the interests of Banks, Sub-Registries and other parties approved by Bank Indonesia.
11. SBI Securities Account is securities account used to record the ownership of SBIs at the Central Registry.
12. Securities Settlement is the transfer of SBI ownership between holders of Securities accounts registered in the BI-SSSS in order to settle SBI transaction through the BI-SSSS.
13. Fund Settlement is the transfer of funds between holders of Rupiah Demand Deposit accounts at Bank Indonesia through the BI-RTGS System in order to settle Securities transaction through the BI-SSSS.
14. Delivery Versus Payment, hereinafter referred to as DVP, is a method of Securities Settlement in which Securities Settlement through the BI-SSSS is conducted simultaneously with Fund Settlement at Bank Indonesia through the BI-RTGS System.
15. Broker is a Rupiah and Foreign Exchange Money Market Broker and a Securities Broker/Dealer appointed by Bank Indonesia as auction participant.

II. CHARACTERISTICS OF SBI

1. The unit of SBI is in the amount of Rp1,000,000.00 (one million Rupiah).

2. The tenor...

2. The tenor of SBI shall be no less than 1 (one) month and no longer than 12 (twelve) months stated in number of days and calculated as of the date of the transaction settlement until the date of maturity. Illustration of the calculation of SBI tenor is provided in Attachment-1.
3. SBI shall be issued and traded under discount system.
4. Cash value of the transaction shall be calculated based on true discount, as follows:

$$\text{Cash Value} = \frac{\text{Nominal Value} \times 360}{360 + \{(\text{Discount Rate}) \times (\text{Tenor})\}}$$

5. Discount value shall be calculated as follows:

$$\text{Discount Value} = \text{Nominal Value} - \text{Cash Value}$$

The calculation of SBI Discount Value is illustrated in Attachment-2.

6. SBI shall be issued scriptless.
7. SBI may be traded in secondary market.

III. PRINCIPLES AND REQUIREMENT OF SBI AUCTION

1. The issuance of SBI auction shall be done by the following auction mechanism:
 - a. Fixed rate

The discount rate of SBI auction is determined by Bank Indonesia; or,
 - b. Variable rate
 - 1) The discount rate of SBI auction proposed by participants, in a multiplication of discount of 0.0625% (six hundred twenty-five per million).
 - 2) Bank Indonesia shall announce the indicative target of SBI auction.

2. If the ...

2. If the issuance of SBI with a 1 (one) month tenor is conducted using Fixed rate method as referred to in point 1.a, the valid discount rate will be equivalent to BI-RATE.
3. Bank Indonesia cq. Directorate of Monetary Management – Money Market Operation Division shall announce the plan for SBI Auction not later than 1 (one) working day prior to the SBI Auction through the BI-SSSS facility, Money Market Information Center (PIPU) as stated in the Commercial Bank Daily Report and or other facilities designated by Bank Indonesia.
4. The announcement of SBI auction plan as mentioned in point 3 will include among others, SBI tenors, auction methods, discount rate (if the auction is using the fixed rate method), auction date, auction time, window time as well as settlement date.
5. SBI Auction shall be held on a Wednesday with window time starting from 12.00 noon until 02.00 pm WIB, or on any working day with the window time determined by Bank Indonesia.
6. Any change about the day or window time of auction plan as stated in point 5 will be announced by Bank Indonesia through the BI-SSSS facility, PIPU and/or other facilities designated by Bank Indonesia.
7. The maturity date of SBI shall be on a Thursday or on a working day following Thursday if Thursday is a holiday. If is necessary, Bank Indonesia may determine a maturity date on any other working day.
8. SBI Auction Participants are categorized as follows:
 - a. Direct participants, i.e. Banks and Brokers which conduct SBI Auction transactions directly with Bank Indonesia.
 - b. Indirect participants, i.e. Banks which place bids for SBI Auction through Brokers

9. Banks...

9. Banks may only place bids for SBI Auction for their own account.
10. Brokers are prohibited from placing bids for SBI Auction for their own accounts.
11. SBI Auction participants shall be held responsible for the accuracy of the submitted bidding data.
12. Bank Indonesia shall only accept transaction submissions from Direct Participants and shall only utilize SBI Auction bidding data submitted by Direct Participants.
13. SBI Auction participants shall not be under sanction of a temporary or permanent discharge as the BI-SSSS participants.
14. Bank Indonesia shall perform Fund Settlement and Securities Settlement as the result of SBI Auction on the primary market the next day after the SBI Auction day (one day settlement).
15. A Bank, either acting as a direct participant or as an indirect participant, is required to provide funds in the amount of transactions won in a relevant SBI Auction by the cut-off warning time of the BI-RTGS System for the purpose of SBI settlement on the primary market, as referred to in point 14.

IV. SUBMISSION OF SBI AUCTION BID

1. On SBI Auction day, direct participants may place SBI Auction Bids to Bank Indonesia c.q. The Directorate of Monetary Management – Monetary Operation Division through the BI-SSSS facility.
2. The placement of SBI Auction bid as referred to in point 1 shall cover the quantity and discount rate proposed based on SBI tenor to be published.

3. Submission ...

3. Submission of quantity bid from each SBI Auction participant shall be no less than 1,000 (one thousand) units or Rp.1,000,000,000 (one billion Rupiah), and the remainder shall be in a multiplication of 100 (one hundred) units or Rp 100,000,000 (one hundred million Rupiah).
4. The bid placement implementation of SBI Auction through the BI-SSSS shall be in accordance with the procedures of Bank Indonesia concerning the BI-SSSS.

V. DETERMINATION OF SBI AUCTION WINNER

1. If the SBI auction is conducted using the fixed rate method, the incoming quantity bids from each participant will be determined as auction winners.
2. Bank Indonesia shall adjust the quantity of SBI Auction winners as referred to in point 1.
3. If the SBI auction is conducted using variable rate method, the winner of SBI auction shall be determined as follows:
 - a. Bank Indonesia shall determine SOR of the incoming bid of SBI auction.
 - b. The quantity of SBI auction won by each participant is based on the following calculation:
 - 1) In the event that the discount rate proposed is lower than SOR, the relevant auction participant shall obtain the entire bid amount;
 - 2) In the event that the discount rate proposed is equivalent to SOR, the relevant auction participant may obtain the entire bid amount or a portion of the SBI based on proportional calculation.
4. If the quantity of SBI auction won by participants is based on proportional calculation as referred to in point 2 or point 3.b.2 the SBI lowest nominal value will be rounded to Rp 1,000,000 (one million Rupiah).

5. Samples calculation for determining an SBI Auction winner as referred to in point 1 to point 3 are illustrated in Attachment-3a and Attachment-3b.
6. Bank Indonesia shall announce the SBI Auction outcome after the closing of window time, individually to each winner through the BI-SSSS facility and comprehensively through BI-SSSS and PIPU.
7. Bank Indonesia can cancel the outcome of SBI auction.

VI. SETTLEMENT OF SBI TRANSACTION AND REDEMPTION

1. Bank Indonesia cq. Directorate of Monetary Management – Transaction Settlement Division of Monetary Management shall conduct Fund Settlement of the SBI Auction outcome by debiting the Demand Deposit account of the relevant Bank and crediting the SBI Securities Account of the relevant Bank at Central Registry.
2. The value of Fund settlement as referred to in point 1 is equivalent to the SBI cash value won by the participant.
3. In the event that a Bank does not have sufficient balance in its Demand Deposit account to cover the entire Fund Settlement obligation of the Bank by the cut-off warning time of the BI-RTGS System, the SBI Auction portion that has been won by the relevant Bank shall be cancelled.
4. Cancellation of transaction as referred to in point 3 shall be imposed only to SBI serial numbers of which full Fund Settlement cannot be conducted. An example of transaction cancellation is illustrated in Attachment-4.
5. For the transaction cancellation, the Bank shall be imposed with a sanction.
6. Bank Indonesia shall redeem SBI at maturity pursuant to SBI ownership records in the BI-SSSS facility 1 (one) working day prior to the maturity date.

7. Bank ...

7. Bank Indonesia shall redeem SBI at maturity date by crediting the Demand Deposit account of the relevant Bank and debiting the SBI Securities Account of the relevant Bank at the Central Registry.
8. The settlement mechanism for the issuance transaction and redemption of SBI through the BI-SSSS shall be in accordance with the procedures as referred to in prevailing Circular Letter(s) concerning the BI-SSSS.

VII. SANCTIONS

1. In the event of a cancellation of SBI Auction transaction as referred to in point VI.3., the Bank shall be imposed with a sanction in the form of:
 - a. Warning letter with copies to:
 - 1) the Relevant Directorate of Bank Supervision, if the sanction is imposed on a Bank having a head office in the work area of Bank Indonesia Head Office; or
 - 2) The Bank Supervision Team – local Bank Indonesia Office (KBI), if the sanction is imposed on a Bank having a head office in the work area of Bank Indonesia Head Office, and
 - b. Payment Obligation of $1^{0/00}$ (one-thousandth) of the nominal value of the cancelled SBI transaction or not more than Rp 1.000.000.000. (One billion Rupiah), and
 - c. Temporary discharge from participating in OMO activities for 5 (five) working days in the event that direct participants or indirect participants are imposed with a written warning for the third time within a period of 6 (six) months due to cancellations of SBI transaction on the primary.
2. Delivery of the warning letter as referred to in point 1.a and the notice of temporary discharge from participating in OMO activities as referred to in point 1.c. shall be made 1 (one) working day after the transaction cancellation.

3. Imposition of payment obligation sanction as referred to in point 1.b. shall be done by debiting the Demand Deposit Account of the relevant Bank at Bank Indonesia 1 (one) working day after the transaction cancellation.

With the validity of this Circular Letter, Bank Indonesia Circular Letter Number 6/4/DPM concerning Procedures for the Issuance, Trading and Administration of Bank Indonesia Certificate dated February 16, 2004 shall be declared invalid.

Provisions of this Circular Letter shall be effective as of May 9, 2006.

For the information of public, this Circular Letter shall be promulgated by publishing it in the State Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

EDDY SULAEMAN YUSUF
DIRECTOR OF MONETER MANAGEMENT

Attachment-1

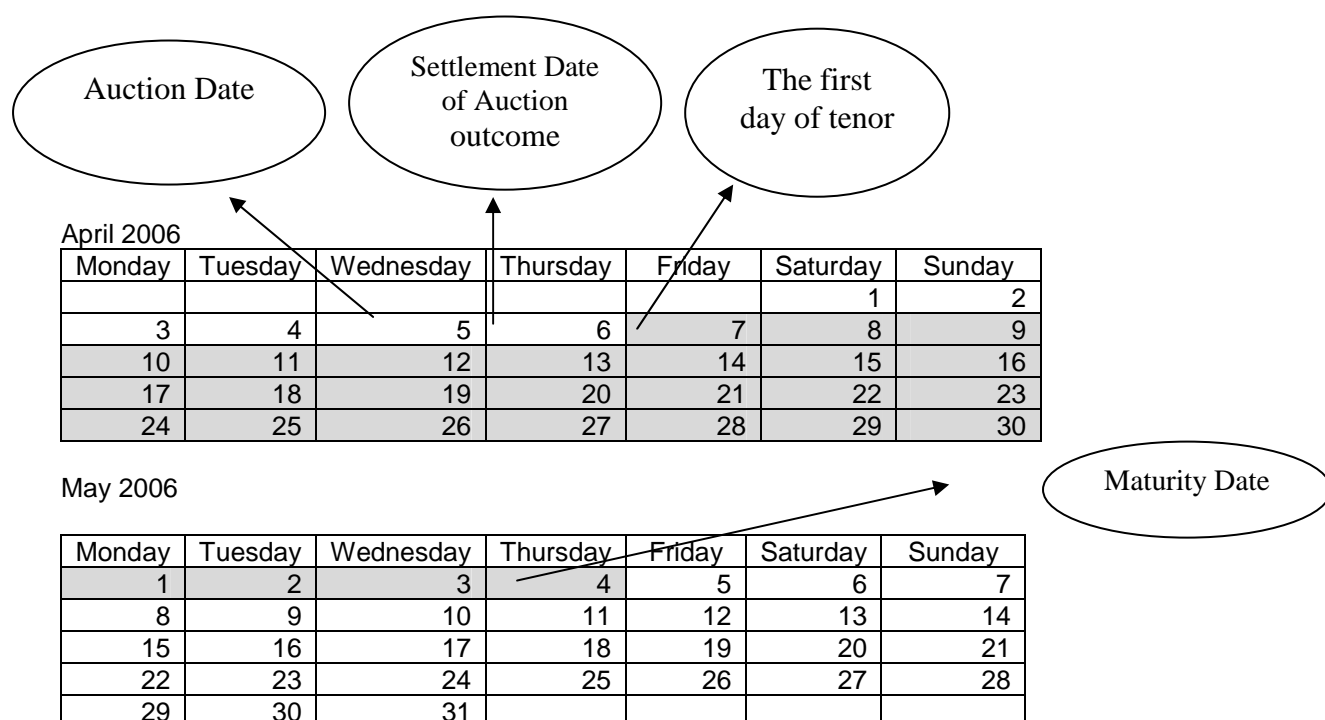
Calculation of SBI Tenor

Example of calculation of SBI tenor of 1 (one) month with the following data:

Auction date : April 6, 2006

Settlement Date of Auction outcome : April 6, 2006

Settlement Date of SBI maturity date : May 4, 2006



SBI tenor of 1 (one) month is calculated in number days, starting from April 6, 2006 (one day after the settlement date) until the maturity date or 28 (twenty eight) days.

Attachment-2

Calculation of SBI True Discount

Auction Date	: April 5, 2006
SBI Nominal Value	: Rp1,000,000,000.00
Discount Rate	: 12.75%
Maturity Date	: May 4, 2006
SBI Tenor	: 1 month (28 days)

The Cash value can be calculated as follows:

$$\begin{aligned}\text{Cash Value} &= \frac{(\text{Nominal Value}) \times 360}{360 + \{(\text{Discount Rate}) \times (\text{Tenor})\}} \\ &= \frac{(\text{Rp}1,000,000,000.00) \times 360}{360 + \{ (12.75\%) \times (28) \}} \\ &= \text{Rp } 990,180,707.98\end{aligned}$$

$$\text{Discount Value} = \text{Nominal Value} - \text{Cash Value}$$

$$\begin{aligned}\text{Discount Rate} &= \text{Rp } 1,000,000,000.00 - \text{Rp } 990,180,707.98 \\ &= \text{Rp } 9,819,292.02\end{aligned}$$

Attachment-3a

Example of Calculation of SBI Auction Winner
Using Fixed Rate Auction Method

Auction Plan

Auction Date : April 5, 2006
Auction Method : Fixed Rate
SBI Tenor : 28 days
Discount Rate : 12.750%
Window time : 12.00-14.00 WIB
Settlement Date : April 6, 2006

Example 1:

If all the incoming bids determined to be the winners

- Incoming bids^{a)} : Rp 8 trillion
- Determined Auction Quantity^{b)} : Rp 8 trillion
- Weighted Average Discount of Auction outcome: 12.750%

(in million rupiah)

No	Bank	Bid ^{a)}				Auction Winner ^{b)}				
		Quantity	Cumulative	Discount (%)	Weighted Average Discount (%)	Quantity	Cumulative	Discount (%)	Weighted Average Discount (%)	Cash Value
1	A	500	500	12.750	12.750	500	500	12.750	12.750	495
2	B	1.000	1.500	12.750	12.750	1.000	1.500	12.750	12.750	991
3	C	750	2.250	12.750	12.750	750	2.250	12.750	12.750	743
4	D	1.250	3.500	12.750	12.750	1.250	3.500	12.750	12.750	1.238
5	E	500	4.000	12.750	12.750	500	4.000	12.750	12.750	495
6	F	1.000	5.000	12.750	12.750	1.000	5.000	12.750	12.750	990
7	A	500	5.500	12.750	12.750	500	5.500	12.750	12.750	495
8	B	800	6.300	12.750	12.750	800	6.300	12.750	12.750	792
9	G	500	6.800	12.750	12.750	500	6.800	12.750	12.750	495
10	H	700	7.500	12.750	12.750	700	7.500	12.750	12.750	693
11	C	500	8.000	12.750	12.750	500	8.000	12.750	12.750	495

Example 2:

If all the incoming bids determined as auction winners based on proportional calculation

- Incoming Auction bids : Rp 8 trillion.
- Determined auction quantity^{d)} : Rp 6.5 trillion
- Weighted Average Discount of Auction outcome : 12.750%

(in million rupiah)

No	Bank	Bid ^{c)}				Auction Winner ^{d)}				
		Quantity	Cumulative	Discount (%)	Weighted Average Discount (%)	Quantity	Cumulative	Discount (%)	Weighted Average Discount (%)	Cash Value
1	A	500	500	12.750	12.750	406	406	12.750	12.750	402
2	B	1.000	1.500	12.750	12.750	813	1.218	12.750	12.750	805
3	C	750	2.250	12.750	12.750	609	1.828	12.750	12.750	603
4	D	1.250	3.500	12.750	12.750	1.015	2.843	12.750	12.750	1.006
5	E	500	4.000	12.750	12.750	406	3.250	12.750	12.750	402
6	F	1.000	5.000	12.750	12.750	813	4.063	12.750	12.750	805
7	A	500	5.500	12.750	12.750	406	4.469	12.750	12.750	402
8	B	800	6.300	12.750	12.750	650	5.119	12.750	12.750	644
9	G	500	6.800	12.750	12.750	406	5.525	12.750	12.750	402
10	H	700	7.500	12.750	12.750	569	6.094	12.750	12.750	563
11	C	500	8.000	12.750	12.750	406	6.500	12.750	12.750	402

Note.

The quantity of auction winner is calculated proportionally as follows:

(Bids placed by participant/total number of incoming bids) x SBI auction quantity received

Example of bid no. 1 from Bank A = (500 / 8.000) X 6,500 = 406

Example of Calculation of SBI Auction Winner
Using Variable Rate Auction Method

Auction Plan

Auction Date : April 5, 2006
 Auction Target : Rp 7.5 triliun
 Auction Method : Variable rate
 SBI Tenor : 28 days
 Window time : 12.00-14.00 WIB
 Settlement Date : April 6, 2006

Example 1:

If all the incoming bids equivalent to the SOR level are determined as winners:

- Incoming bids ^{a)} : Rp 8 trillion
- Estimated discount rate : 12.000%-13.000%
- Determined bid quantity ^{b)} : Rp7.5 trillion
- SOR : 12.750% (received entirely)
- Weighted Average Discount of Auction outcome: 12.525%

(In million rupiah)

No	Bank	Bids ^{a)}				Auction Winners ^{b)}				
		Quantity	Cumulative	Discount (%)	Weighted Average Discount (%)	Quantity	Cumulative	Discount (%)	Weighted Average Discount (%)	Cash Value
1	A	500	500	12.000	12.000	500	500	12.000	12.000	495
2	B	1.000	1.500	12.250	12.167	1.000	1.500	12.250	12.167	991
3	C	750	2.250	12.250	12.194	750	2.250	12.250	12.194	743
4	D	1.250	3.500	12.500	12.304	1.250	3.500	12.500	12.304	1.238
5	E	500	4.000	12.500	12.328	500	4.000	12.500	12.328	495
6	F	1.000	5.000	12.750	12.413	1.000	5.000	12.750	12.413	990
7	A	500	5.500	12.750	12.443	500	5.500	12.750	12.443	495
8	B	800	6.300	12.750	12.482	800	6.300	12.750	12.482	792
9	G	500	6.800	12.750	12.502	500	6.800	12.750	12.502	495
10	H	700	7.500	12.750	12.525	700	7.500	12.750	12.525	693
11	C	500	8.000	13.000	12.555	Does not win				

Example 2:

If all the bids placed lower than SOR are determined as winners while the bids placed equivalent to SOR are calculated proportionally.

- Auction bids placed ^{c)} : Rp 8 trillion
- Estimated Discount RateKisaran :12.000%-13.000%
- Determined Auction Quantity^{d)} : Rp6.5 trillion
- SOR :12.750% (received proportionally)
- Weighted Average Discount of auction outcome: 12.490%

(In million rupiah)

No	Bank	Bid ^{c)}				Auction Winners ^{d)}				
		Quantity	Cumulative	Discount (%)	Weighted Average Discount (%)	Quantity	Cumulative	Discount (%)	Weighted Average Discount (%)	Cash Value
1	A	500	500	12.000	12.000	500	500	12.000	12.000	495
2	B	1.000	1.500	12.250	12.167	1.000	1.500	12.250	12.167	991
3	C	750	2.250	12.250	12.194	750	2.250	12.250	12.194	743
4	D	1.250	3.500	12.500	12.304	1.250	3.500	12.500	12.304	1.238
5	E	500	4.000	12.500	12.328	500	4.000	12.500	12.328	495
6	F	1.000	5.000	12.750	12.413	714	4.714	12.750	12.392	707
7	A	500	5.500	12.750	12.443	357	5.071	12.750	12.417	354
8	B	800	6.300	12.750	12.482	571	5.642	12.750	12.451	566
9	G	500	6.800	12.750	12.502	357	6.000	12.750	12.469	354
10	H	700	7.500	12.750	12.525	500	6.500	12.750	12.490	495
11	C	500	8.000	13.000	12.555	Does not win				

Note:

The quantity of auction winner proportionally (bids no 6 to 10) is calculated as follows:

- Auction quantity received : Rp6,500 million
- Quantity received lower than SOR : Rp4,000 million
- Remaining quantity to be taken at the SOR level : Rp1,500 million

The quantity amounting to Rp 1,500 million is calculated proportionally for the total bids equivalent to SOR level amounting to Rp3,500 million

An example of quantity won by bid no. 6 (Bank F) = (1,000/3,500) x 1,500 = Rp 714 million.

Attachment-4

EXAMPLES OF TRANSACTION CANCELLATION

Example 1:

On 1 (one) auction day Bank A participates in 2 (two) SBI auctions and each SBI auction has tenor of 1 month and 3 months with fund settlement status won on SBI auction outcome calculated as follows:

Type of Auction	Auction won by participant (in billion rupiah)	Settlement status up to <i>cut off warning</i>
1 month SBI Auction	50	<i>Complete</i>
3 months SBI Auction	75	<i>Settlement Pending</i>

- Cancellation of SBI Auction transaction is calculated once.
- The amount of sanction imposed is $1\text{ ‰} \times \text{Rp } 75 \text{ billion} = \text{Rp } 75 \text{ million}$

Example 2:

On 1 (one) auction day Bank A participates in 2 (two) SBI auctions and each SBI auction has tenor of 1 month and 3 months with fund settlement status won on SBI auction outcome calculated as follows:

	Auction won by participant (in billion rupiah)	Settlement status up to <i>cut off warning</i>
1 month SBI Auction	50	<i>Settlement Pending</i>
3 months SBI Auction	75	<i>Settlement Pending</i>

- Cancellation of SBI Auction transactions is calculated 2 (two) times.
- The amount of sanction imposed is $1\text{ ‰} \times \text{Rp } 125 \text{ billion} = \text{Rp } 125 \text{ million}$